

## 1.10 REVENUE RECOGNITION (CONT)

### Government Grants

Government Grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by municipalities rendering services.

Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed in their use.

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

### Other grants and donations received

Other grants and donations shall be recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment are brought into use.

Revenue from public contributions is recognised when all conditions have been met or where the contribution to property, plant and equipment is recognised when such items of property, plant and equipment are brought into use.

Where public contributions have been received but the conditions were not met, a liability is recognised.

### Levies

Levies shall be recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

### Interest, royalties and dividends

Revenue arising from the use of assets by others of the municipal assets yielding interest royalties and dividends shall be recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

Interest shall be recognised on a time proportionate basis that takes into account the effective yield on the asset;

Royalties shall be recognised as they are earned in accordance with the substance of the relevant agreement; and

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified.

### **1.10 REVENUE RECOGNITION (CONT)**

The income recognised is in terms of the agency agreement.

Collection charges are recognised when such amounts are incurred.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue from the recovery of unauthorised irregular, fruitless and wasteful expenditure is based on legislated procedures.

Revenue are initially recognised at cost as permitted in terms of Gazette 30013 of 29 June 2007.

### **1.11 PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation, as a result of past events, that is probable to cause an outflow of resources embodying economic benefits required to settle the obligation and a reliable estimate of the provision can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### **1.12 CONTINGENT ASSETS**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. Contingent assets are not recognised as assets.

### **1.13 CONTINGENT LIABILITIES**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities.

### **1.14 CONDITIONAL GRANTS AND RECEIPTS**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is raised.

### **1.15 CASH AND CASH EQUIVALENTS**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term investments that are held with registered banking institutions with maturities of 32 days or daily calls.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

### **1.16 UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act 56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.17 IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), the Public Office Bearers Act (Act 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.18 FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.19 COMPARATIVE INFORMATION**

Budgeted amounts have been included in the annual financial statements for the current financial year only. When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

### **1.20 RETIREMENT BENEFITS**

The municipality contributes towards retirement benefits of its employees and councillors to the under-mentioned pension funds:

- Municipal Gratuity Fund
- Municipal Employees Pension Fund
- SAMWU Provident Fund

Councillors are members of the Municipal Councillor's Pension Fund that was established in terms of the Remuneration of Public Office Bearers Act 1998 (Act 20 of 1998).

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

Contributions to the defined contribution pension plan in respect of service in a particular period are included in the employees' total cost of employment and are charged to the statement of financial performance in the year to which they relate as part of cost of employment.

### **1.21 BORROWING COSTS**

Borrowing costs are recognised as an expense in the Statement of Financial Performance.



### **1.22 CONSUMER DEPOSITS**

Consumer deposits are a partial security for a future payment of services accounts as determined yearly during the budget process.

Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

### **1.23 EVENTS AFTER BALANCE SHEET DATE**

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date.

Events after the balance sheet date that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note to the financial statements.

### **1.24 VALUE ADDED TAX**

The municipality accounts for Value Added Tax on the invoice basis.

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**GREATER TUBATSE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2009**

	2009	2008
<b>2. RESERVES</b>		
Government Grants Reserve	18 532 579	18 676 749
Revaluation Reserve	4 683 000	
Donations and Public Contribution Reserve	69 713 693	72 038 680
	<b>92 929 272</b>	<b>90 715 429</b>
<b>3. LONG TERM LIABILITIES</b>		
Annuity loans	13 558 820	10 495 856
Lease Liability	3 614 244	
Less: Current portion transferred to current liabilities	(1 143 610)	-210 659
	<b>16 029 455</b>	<b>10 285 197</b>
Less: Current portion transferred to current liabilities		
<i>Refer to Appendix A for more detail on long term liabilities.</i>		
<b>4. CONSUMER DEPOSITS</b>		
Water	<b>772 032</b>	<b>663 491</b>
No interest is paid on deposits.		
<b>5. PROVISIONS</b>		
<b>Performance Bonus</b>		
Balance at beginning of year	649 174	-
Contribution to provision	142 045	649 174
	<b>791 219</b>	<b>649 174</b>
<i>Performance bonuses are paid one year in arrears. The assessment of eligible employees had not taken place at the reporting date. The provision is an estimate of the amount according to the performance agreements at the reporting date.</i>		
<b>6. CREDITORS</b>		
Trade Creditors	4 924 070	388 814
VAT Liability	2 930 199	-
Other Creditors	( 509 381)	4 662 698
Staff Leave	4 117 916	4 576 979
Retention	5 103 835	1 838 407
	<b>16 566 639</b>	<b>11 466 898</b>
<i>Creditors are recognised at cost and no interest was recognised as a result of any time value of money adjustments as permitted per gazette 30013 of 29 June 2007</i>		
<b>7. CONDITIONAL GRANTS FROM GOVERNMENT</b>		
Department of Transport	-	6 505 470
	<b>-</b>	<b>6 505 470</b>
<i>See note 16 for reconciliation of grants. These amounts are invested until utilised.</i>		

# GREATER TUBATSE MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2009

### 8. PROPERTY, PLANT & EQUIPMENT

	Land and Buildings R	Infrastructure R	Community Assets R	Other Assets R	Total R
<b>Carrying values at 1 July 2008</b>	<b>20 043 000</b>	<b>196 923 415</b>	<b>12 640 848</b>	<b>5 709 149</b>	<b>235 316 412</b>
Cost	20 043 000	196 923 415	12 640 848	5 709 149	235 316 412
Accumulated depreciation – cost		(5 870 974)	( 617 015)	(2 768 128)	(9 256 117)
Acquisitions	3 300 000	57 988 844	10 511 189	10 449 481	82 249 514
Capital under construction					-
Depreciation		(5 938 148)	( 421 362)	(2 299 032)	(8 658 542)
Transfer in / out	2 523 000				2 523 000
Carrying value of disposals					-
Cost	25 866 000	254 912 259	23 152 037	16 158 630	320 088 926
Accumulated depreciation – cost		(11 809 122)	(1 038 377)	(5 067 160)	(17 914 659)
<b>Carrying values at 30 June 2009</b>	<b>49 209 000</b>	<b>254 912 259</b>	<b>23 152 037</b>	<b>16 158 630</b>	<b>302 174 267</b>
Cost	49 209 000	509 824 519		32 317 260	591 350 778
Accumulated depreciation – cost	-	(254 912 259)	( 617 015)	(16 158 630)	(271 697 904)
<b>Carrying values at 30 June 2008</b>	<b>20 043 000</b>	<b>196 923 415</b>	<b>12 640 848</b>	<b>5 709 149</b>	<b>235 316 412</b>
Cost	20 043 000	196 923 415	12 640 848	5 709 149	235 316 412
Accumulated depreciation – cost	-	-	-	-	-

Notes to financial statements for the year ended 30 June 2009: property, plant and equipment, including depreciation, is the subject of note 10.

The Municipality has been allocated a conditional provision of R 100 000 in 2008/09.

The Municipality is in the process of disposing of infrastructure and community assets and will separately accumulated depreciation over the period has been accumulated at 30 June 2008.

Page 76